

US: Confidence signals an appetite to spend

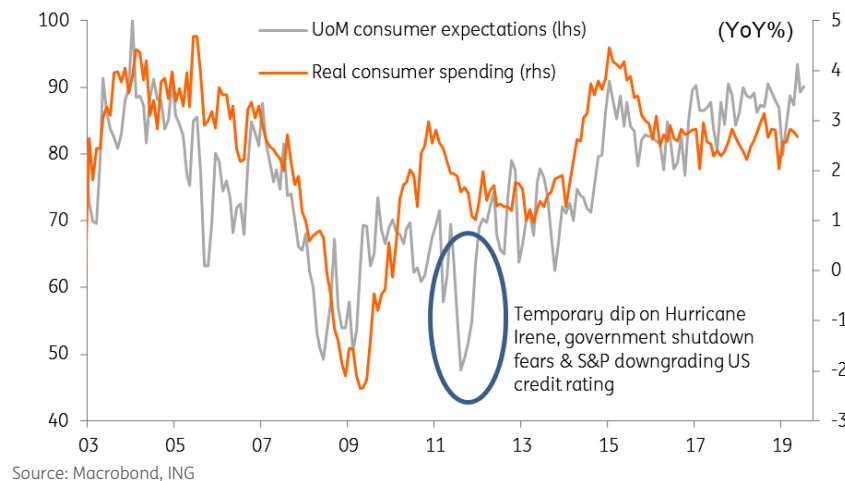
Households have the cash and the confidence to spend, limiting the need for aggressive interest rate cuts from the Federal Reserve



Consumer spending to accelerate?

The July University of Michigan consumer confidence index has come in broadly in line with expectations at 98.4 versus 98.2 in June. It remains close to cycle highs with the details showing there was a slight drop in the “current conditions” component, but the “expectations” index actually rose to 90.1 from 89.3. This is good news in that it has a decent correlation with consumer spending with the chart below hinting at a possible acceleration in consumer spending growth in the coming months.

Confidence indicators point to stronger spending growth



3Q starts on a decent footing

This report offers more evidence that the US consumer appears to be in excellent shape. Unemployment is close to 50-year lows, pay and benefit packages are improving, gasoline prices are low and equity and house prices keep on rising. As such households have cash in their pockets and the confidence to go and spend it. This was clearly evident in this week's retail sales numbers along with the fact that mortgage applications for home purchases are so strong.

This report offers more evidence that the US consumer appears to be in excellent shape

It isn't just the consumer sector that is looking in good health. While next Friday's 2Q GDP report looks set to show growth below 2% (largely an inventory unwind), the sharp rebound in the July Empire and Philly Fed manufacturing surveys, coupled with strong consumer confidence, means the outlook for 3Q19 GDP growth is encouraging.

But markets want rate cuts...

Nonetheless, worries about the prospects for US-China and US-EU trade relations are never from the market's mind. There clearly is the threat that a re-escalation of tensions derails the global growth story, which could force the Federal Reserve to aggressively cut interest rates. The Fed appears to be acquiescing by indicating a desire to implement precautionary stimulus to offset these risks.

We continue to look for just a 25bp move given the encouraging growth backdrop

The market continues to price four 25bp rate cuts over the next eighteen months with a 50-50 chance the Fed eases by 50bp on July 31st. We continue to look for just a 25bp move given the encouraging growth backdrop and the fact trade talks are continuing leaves open the door for a deal. Moreover, with the notably dovish St Louis Fed President James Bullard again today suggesting a 25bp move would be appropriate we would need to see some very poor macro/trade headlines over the next two weeks to justify more aggressive stimulus.

Author

James Knightley

Chief International Economist

james.knightley@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.